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Nicholas R. Lardy. China in the World Economy (Review)

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Nicholas R. Lardy. *China in the World Economy*. Washington, D.C.: Institute for International Economics, 1994. xi, 156 pp. Paperback \$16.95.

The stated purpose of *China in the World Economy* is “to examine the implications of China’s rise as a major player on the international trade and financial scene” (p. 3). In this slim, five-chapter book, a thorough analysis of this important topic is not possible. What Lardy gives us is an overview of China’s current economic position in the world and the probable future trends. The strongest thread throughout the book is China’s economic relations with the United States. The last chapter lays out specific proposals for the U.S. that are a valuable source of ideas for those who make policy in this arena.

Lardy analyzes China’s economic rise in the world economy using a balanced and realistic approach. In chapter 1, he summarizes the estimates of how large China’s economy really is. In terms of gross domestic product at parity prices, these estimates range from .36 trillion dollars to 2.9 trillion dollars. To Lardy, 1.25 trillion dollars seems the most reasonable figure, which would put per capita output at \$1,100 (p. 18). In chapters 2 and 3, Lardy explains China’s impressive export growth with several variables, although there is no analytical model presented to generate these results. He argues that the main export impetus was petroleum in the first half of the 1980s. By the second half of the 1980s, exports represented a product mix more compatible with China’s supposed comparative advantage in labor-intensive manufactured goods. By then, foreign-invested firms were generating nearly all of China’s export expansion.

Lardy argues that if China is a newly industrializing country (NIC), it is an NIC with important differences. China’s reliance on foreign capital, its bankrupt state-owned sector, and its unequal regional income distribution set it apart from the export growth patterns of countries like Taiwan and South Korea. The implication is that while China is a fast-growing economy with great export potential, it is also unlikely to become the world’s largest economy by the year 2010, as estimated the *Economist* (28 November 1992, p.24; Lardy, p. 5). Even if China becomes the largest economy, China’s population growth will keep per capita output at modest levels at best.

Placing China in a realistic place in terms of growth and export potential sets the background for chapter 4, where Lardy discusses how China’s trade will affect the U.S. From the U.S. perspective, bilateral trade has led to a trade deficit. This deficit is so large that it is expected soon to surpass the U.S. deficit with Japan. Large trade deficits tend to create pressure for bilateral negotiations to find ways for the trading partner to buy more imports from the U.S. China is no exception to this kind of development. Trade talks are complicated by the fact that China

believes the deficit is much smaller than does the U.S. For example, in 1992 the U.S. reported that its trade deficit with China was almost \$19 billion while China's data showed a small surplus for the U.S. In the most technical part of the book, Lardy carefully explains the main reasons for this discrepancy. Lardy estimates that the U.S. Commerce Department overstates the U.S. trade deficit with China by a third largely because of how each country treats the trade between China and the U.S. that passes through Hong Kong. Lardy points out that even when Hong Kong returns to China in 1997, this problem will persist because Hong Kong will remain a separate customs area. However, as a result of negotiations begun at the Asian Pacific Economic Cooperation meetings in Seattle in late 1993, in 1994 the two governments began an official reconciliation of trade statistics that should narrow the reported differences in the future.

Even with adjustments, the U.S.-China trade imbalance is large and growing. Lardy briefly discusses two reasons for this. First, increased investment from East Asia in China has shifted the U.S. deficit from other countries to China. The U.S. is simply now buying many products from China instead of from Hong Kong or Taiwan. Second, a substantial portion of U.S. goods going to China does not count as U.S. exports because these exports are often sold to Hong Kong firms first. But there are also trends countering the trade imbalance. Lardy argues that China has largely cooperated with the U.S. on issues relating to access to China's markets and to more restrictive quotas on Chinese textiles sold in the U.S. He also maintains that currency manipulation, if it exists, would work in favor of the U.S. trade balance—not against it as the U.S. Treasury Department has suggested.

Why, then, is the bilateral trade deficit so large and growing? Lardy addresses this question in pieces throughout the book while claiming that a full analysis is beyond the scope of this study. He does suggest, however, that the trade deficit is less an issue of market access and openness in China and more one of U.S. market conditions and business and government practices. For example, there is no getting around the fact that there is an enormous demand in the U.S. for the types of products produced in China: inexpensive toys, electronic goods, and garments. Also, trade in the types of products that U.S. companies produce best is hindered by COCOM on the U.S. side and the dangers of intellectual property rights violations on the Chinese side. In addition, these products are relatively expensive in China and require scarce foreign exchange. Nonetheless Lardy points out that U.S. exports to China have increased substantially—54 percent in 1991 and 1992 (p. 117)—but that U.S. imports from China have increased even more.

A large and growing trade deficit with China, Lardy argues, should not be cause for alarm. The main reason is that China has experienced a current account deficit itself—a sign of an open economy that is a fundamentally different situation from that of Japan. Based on this observation, Lardy argues that the U.S. should negotiate with China on more equal terms by separating human rights

from economic issues and by relying on multilateral pressure where the U.S. feels that a change in China's behavior is desirable.

These recommendations make sense and are backed up with reliable facts. The arguments would be stronger if the emphasis on U.S.-China relations was explicitly the central theme. Also, in the first four chapters the readers must draw their own implications from the array of facts presented. Only in the last chapter does Lardy focus on big-picture scenarios along with policy recommendations for the U.S.

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Mabel Lee and A. D. Syrokomla-Stefanowska, editors. *Modernization of the Chinese Past*. University of Sydney School of Asian Studies Series, no. 1. Canberra: Wild Peony, 1993. viii, 179 pp. Paperback \$20.00.

As its title suggests, *Modernization of the Chinese Past* deals with the everfelt presence of the past as a force in shaping both the present and the future of China. The book consists of a series of articles that were originally presented at the conference "The Empire Strikes Back—Restoration in China," which was held at the University of Sydney in July 1992, and the authors of the twelve articles come mostly from universities in Australia. The conference centered on a supposed resurgence of traditional values in recent years as China has struggled to find stability after the political, economic, and social upheavals of the past decades. No issue has so persistently troubled modern Sinology as how to reconcile China's past with its present attempts to "modernize" and "globalize," and this book offers a good introduction to the many different views on this subject. It begins with the premise that the Chinese are turning back to their own past in order to answer some of today's problems. Each author then explores the repercussions of this new traditionalism from a different angle, often coming to very different conclusions.

While all the articles revolve around a common theme, the book actually seems to be concerned with two different though closely related topics. Many of the articles deal with new efforts in China to understand the modern world within a traditional context, thus leading to a resurgence of traditional models such as Confucianism, reworked to meet the requirements of a new generation. The first three articles of the book, grouped together under the heading of "Con-